



# **FY 15 – FY 17 Financial Update**

**Budget Study Session  
March 11, 2014**



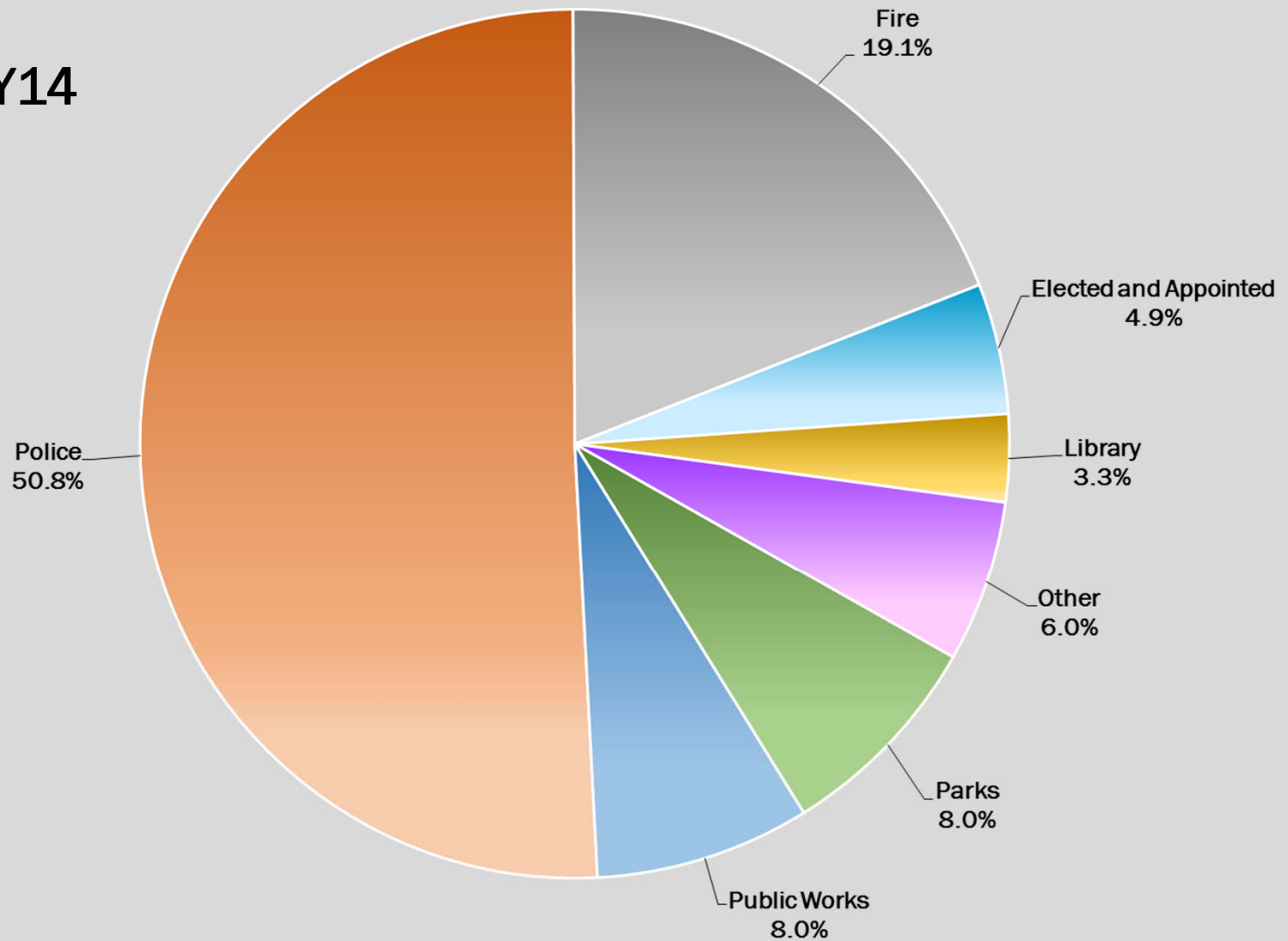
# LONG BEACH HAS STAYED STRONG

- **City Council has**
  - made difficult cuts and balanced the budget
  - maintained priorities using proportionate share
  - invested in maintenance, efficiency and effectiveness
  - followed financial policies
- **Long Beach has**
  - maintained and grown financial reserves
  - maintained a very good bond/credit rating (AA-)
  - maintained services and financial strength better than many cities



# PROPORTIONATE SHARE

FY14



Proportionate share percentage incorporates technical updates from previous percentages.



# REVIEW OF FY 14

- Contained no service reductions for the first time in years; FY 14, 15 and 16 were essentially balanced
- Balanced as a result of discipline and tough decisions
- Achieved pension reform, saving \$13.8 million per year in the General Fund (\$24.7 million in All Funds)
- Received one-time and permanent funding from RDA dissolution
- Funded police and fire academies
- Allocated unique one-time funds to capital and operating improvements
- Continued to work on outstanding financial issues and cost savings



# MORE GOOD THINGS HAPPENING

- Impacts of recession are slowly receding
- Sales taxes and property taxes are recovering
- Significant investment in capital infrastructure
  - streets, sidewalks, community buildings, park infrastructure and development, beach amenities, new fire station
- Many positive events
  - airport, arena, Mercedes-Benz, Molina Health Care expansion, Douglas Park development, increased hotel occupancy, numerous restaurants and businesses opened



# MANY OPERATIONAL AND EFFICIENCY IMPROVEMENTS

- 40-year low for violent crime
- Fast priority-one response time
- Consolidated review and inspection processes
- Consolidated multi-family housing inspections
- Developed a more efficient and effective ambulance service
- Eliminated vehicles from the City's fleet
- Eliminated two departments
- Improved parking citation processes
- Improved utility billing system and processes
- Implemented LBCOP to leverage technology
- Reviewed special employee compensation to better match it with current needs
- Replacing the antiquated financial and HR systems



# BUT CHALLENGES ARE COMING

- Budget balancing, pension reform, and discipline have gotten us to a better place than most, but there is more to do
- In the foreseeable future, it is unlikely that revenues will be able to outpace expenditure growth
- Economy is uncertain and revenue growth is difficult to predict
- Some City funds are still under review and may not be as healthy as desired
- Unfunded liabilities are still problematic



# UNFUNDED LIABILITIES

| <b>Unfunded Liabilities</b>   |              |
|-------------------------------|--------------|
| (In millions of \$)           |              |
| <b>CalPERS Pension</b>        | <b>943</b>   |
| <b>Sick Leave</b>             | <b>119</b>   |
| <b>Retiree Health Subsidy</b> | <b>220</b>   |
| <b>Workers' Compensation</b>  | <b>111</b>   |
| <b>Total</b>                  | <b>1,393</b> |

**CalPERS employer rate increases should eliminate the unfunded liability for pensions, but at a great cost**

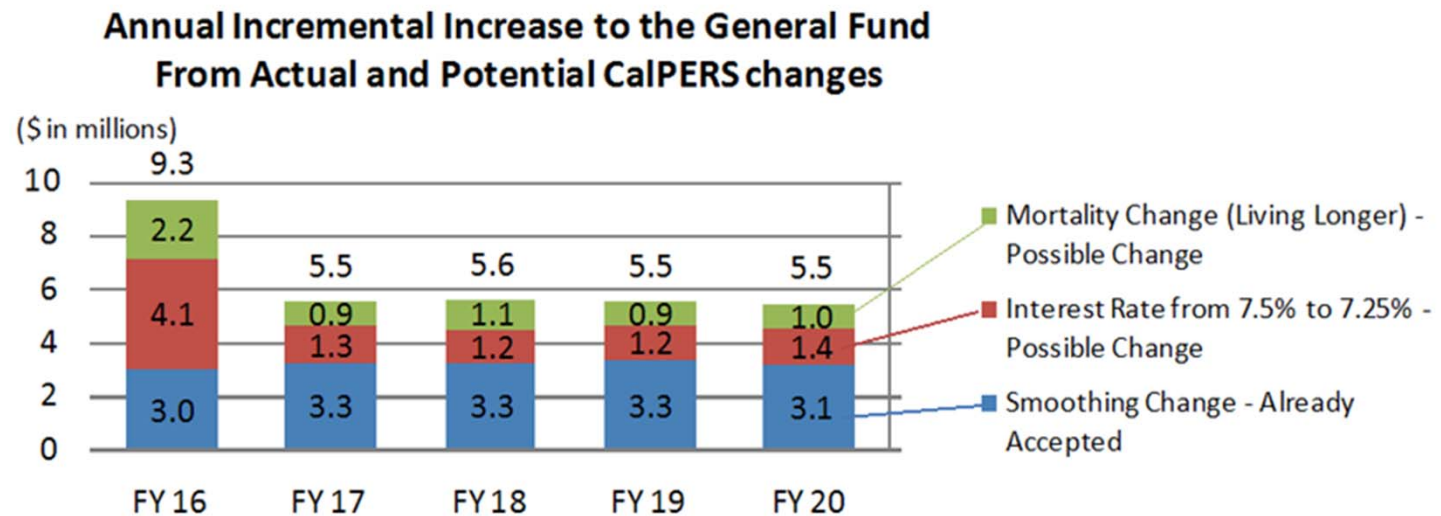




# THE CALPERS CHALLENGE

- Large CalPERS pension cost increases will begin in FY 16
- An early projection of these costs was presented to the City Council during the FY 14 budget adoption process

*Slide from August 13, 2013 Update to City Council on CalPERS*



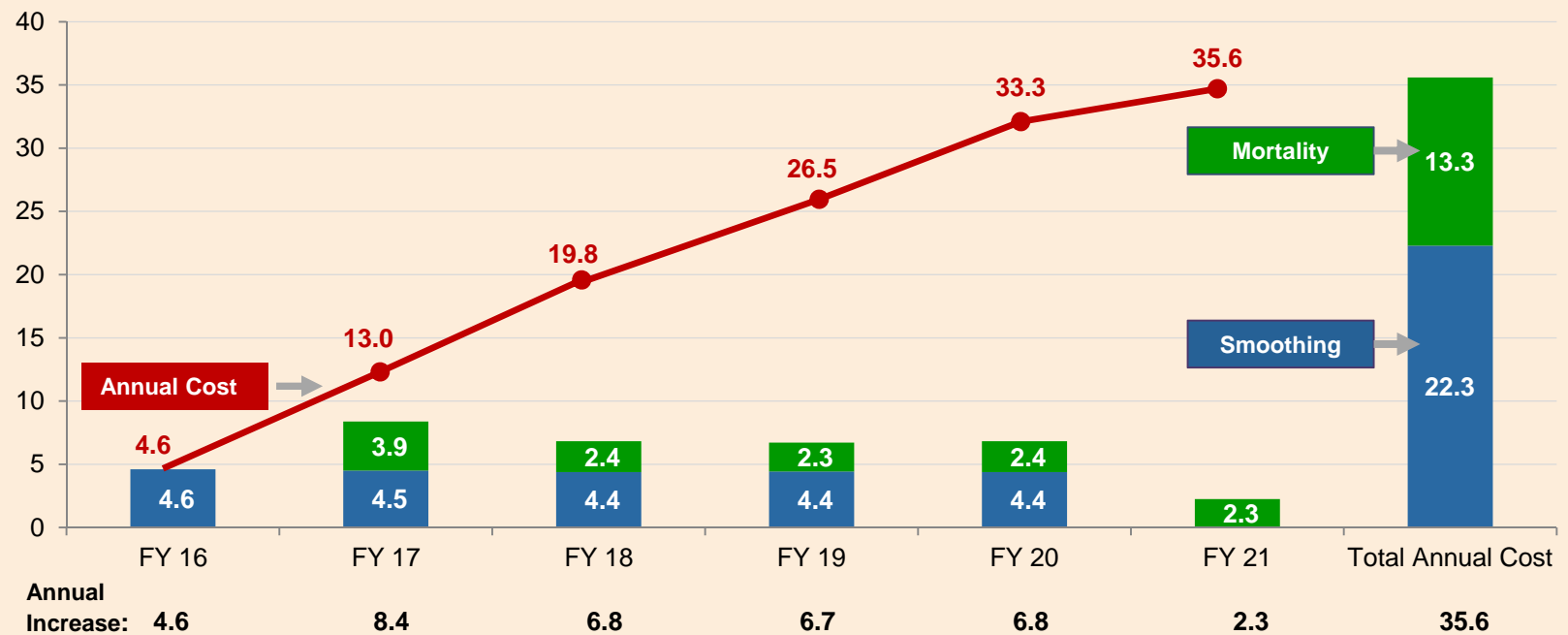
- These costs and their timing have now been updated based on recent CalPERS actions



# CALPERS INCREASES

## Annual Increase in General Fund Expenses from CalPERS Smoothing and Mortality Assumption Changes

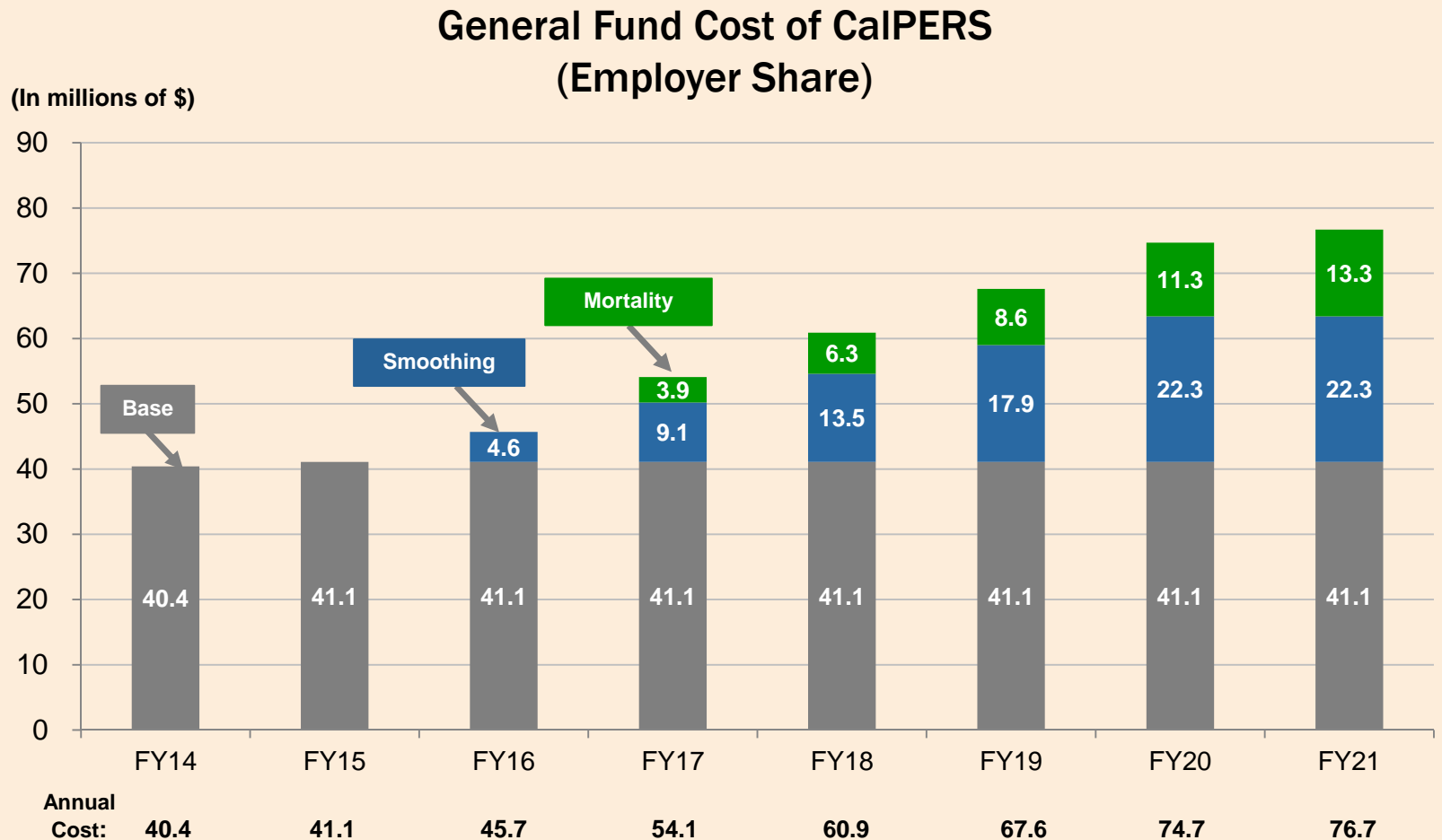
(In millions of \$)



\$35.6M is equivalent to: 19% of the Police Department budget, or 86% of the combined budgets of the Library and Parks, Recreation and Marine Departments. All funds total is \$60.3M.



# CALPERS COST IS ALMOST DOUBLING



From FY 15 through FY 21, CalPERS City costs will go from 16.3% to 29% of payroll for miscellaneous employees and from 24.1% to 45.7% of payroll for safety employees. This is a 78% and a 90% increase, respectively. The overall contribution is up 87%.



# FORECAST ASSUMPTIONS

- **Current budget levels are maintained**
- **Proportionate share is maintained**
- **CalPERS investment earnings are at 7.5%. Actual pension costs will vary due to CalPERS investment earnings fluctuations above or below 7.5%**



# REVENUE INCREASE FORECAST

## Incremental Increase in General Fund Revenue (In millions of \$)

| Revenues                         | FY 15<br>Projection | FY 16<br>Projection | FY 17<br>Projection |
|----------------------------------|---------------------|---------------------|---------------------|
| Property Tax                     | 4.0                 | 1.1                 | 2.8                 |
| Sales and Use Tax                | (0.7)               | 1.5                 | 1.2                 |
| Utility Users Tax                | (0.6)               | (0.4)               | (0.4)               |
| Property Tax In-Lieu of VLF      | 1.5                 | 1.1                 | 0.7                 |
| Uplands Oil Transfer             | (1.4)               | (0.3)               | (0.2)               |
| All Other Revenues               | 1.3                 | 0.6                 | (0.4)               |
| <b>Total Increase in Revenue</b> | <b>4.1</b>          | <b>3.6</b>          | <b>3.7</b>          |



# EXPENSE INCREASE FORECAST

## Incremental Increase in General Fund Expense (In millions of \$)

| Expenses                          | FY 15<br>Projection | FY 16<br>Projection | FY 17<br>Projection |
|-----------------------------------|---------------------|---------------------|---------------------|
| MOU-related Increases             | 3.4                 | -                   | -                   |
| CalPERS rate Increases            | 1.7                 | 4.6                 | 8.4                 |
| Health Benefit Related Increases  | 2.1                 | 2.1                 | 2.1                 |
| Other Miscellaneous               | 0.4                 | (1.9)               | 1.7                 |
| <b>Total Increase in Expenses</b> | <b>7.6</b>          | <b>4.8</b>          | <b>12.2</b>         |



# FORECAST SUMMARY

## Year-Over-Year Changes (In millions of \$)

| Changes   | FY 15<br>Projection | FY 16<br>Projection | FY 17<br>Projection |
|---|---------------------|---------------------|---------------------|
| Total Revenue Change  | 4.1                 | 3.6                 | 3.7                 |
| Total Expense Change  | (7.6)               | (4.8)               | (12.2)              |
| Structural Surplus from FY 14                                     | 3.5                 |                     |                     |
| Projected Surplus/(Deficit)                                       | 0.0*                | (1.2)               | (8.5)               |
| <i>Prior Projection (FY 14)</i>                                   | 1.0                 | (1.3)               | N/A                 |
| * Includes \$1.8M appropriated to the CalPERS Fluctuation Reserve |                     |                     |                     |



# UNCERTAINTIES

- Revenue patterns may change
- Potential annual variance in CalPERS costs
- Impact of expiring labor agreements:
  - IAM – 9/30/14 (through FY 14)
  - POA – 9/30/16 (through FY 16)
  - FFA – 9/30/16 (through FY 16)
  - Others – 9/30/15 (through FY 15)





# FY 15 BUDGET PRINCIPLES

- **FY 15 and FY 16 will be transition years to ongoing difficult budget years beginning in FY 17**
- **We do not have sufficient revenue growth to allow for service increases. Any temporary revenue surplus is needed to prepare for the imminent budgetary shortfalls**
- **For the foreseeable future, expenses appear as if they will continue to outpace revenues (same as budget message for FY 13)**
- **The FY 15 Proposed Budget will continue the restraint and discipline shown by City Council. That restraint and discipline allows Long Beach to maintain long-term services and its financial health**



# FY 15 CITY MANAGER BUDGET DIRECTION

- **Maintain the services we are now providing**
- **No new or expanded services without offsetting reductions**
- **Police academy in FY 15; will consider an FY 15 fire academy**
- **Will continue to develop efficiencies and explore cost reductions and ways to maximize existing revenues for the future**
- **One-time expenditures will focus on uses that reduce future operating costs**



# SUMMARY

- Discipline and restraint has put us in a good position and enables us to deal with future budget issues with the least impact
- FY 15 should be stable – no increase or decrease in services
- For the future, we need to slow the growth of expenses and/or increase the growth of revenues
- FY 15 and FY 16 are transition years to a difficult budget period
- In order for Long Beach to maintain long-term services and to stay financially strong, we need to remain disciplined, eliminate our structural deficit, maintain our priorities, and find and implement solutions that will give us a strong future



# FY 15 BUDGET TIMELINE

- **March 11**                      **Budget Outlook Council Presentation**
- **March 12**                      **Instructions to Departments**
- **By July 3**                      **Submittal of Proposed Budget to Mayor**
- **July**                              **Capital Projects Presentation**
- **By August 2**                      **Mayor Submits Proposed Budget to City Council**
- **August**                              **Community Budget Meetings**
- **August**                              **Budget Oversight Committee Meetings**
- **August 5**                              **Budget Meeting (tentative)**
- **August 12**                              **Budget Meeting (tentative)**
- **August 19**                              **Budget Meeting (tentative)**
- **September 2**                      **Budget Hearing and 1<sup>st</sup> adoption date**
- **September 9**                      **Budget Hearing; 2<sup>nd</sup> adoption date**



# Questions and Comments